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News Release

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Federal jury finds Tom Petters guilty of orchestrating \$3.65 billion Ponzi scheme

Earlier today, a federal trial jury convicted Thomas Joseph Petters, 53, of Wayzata, of orchestrating a \$3.65 billion Ponzi scheme. The verdict followed a month-long trial before United States District Court Judge Richard H. Kyle in the U.S. Courthouse in St. Paul. Specifically, Petters, who was originally indicted in December of 2008, was found guilty of ten counts of wire fraud, three counts of mail fraud, one count of conspiracy to commit mail and wire fraud, one count of conspiracy to commit money laundering, and five counts of money laundering.

According to the indictment and evidence presented at trial, Petters, aided and abetted by others, defrauded and obtained billions of dollars in money and property by inducing investors to provide PCI funds to purchase merchandise that was to be resold to retailers at a profit. However, no such purchases were made. Instead, the defendants and co-conspirators diverted the funds provided them for other purposes, such as making lulling payments to investors, paying off those who assisted in their fraud scheme, funding businesses owned or controlled by the defendants, and financing Thomas Petters's extravagant lifestyle.

The investigation of this case began on September 8, 2008, when co-conspirator Deanna Coleman and her attorney reported to federal prosecutors that she had been assisting Petters in executing a multi-billion-dollar Ponzi scheme during the previous ten years. Coleman claimed she, Petters, and co-conspirator Robert White fabricated business documents to entice investors into lending Petters money purportedly to buy electronic goods to be sold to big-box retailers, such as Costco and Sam's Club.

As a result of the meeting with federal prosecutors, Coleman agreed to work with law enforcement. She wore a recording device to tape conversations with Petters and others to substantiate her claims about the scheme as well as White and Petters's involvement in it. Within

the first few hours of Coleman's recorded conversations, Petters was heard admitting that purchase orders were "fake" and claiming "divine intervention" was the only explanation for how he and his co-conspirators "could of got away with this for so long." These recorded conversations chronicled the history of the scheme as well as the conspirators' efforts to maintain it by obtaining new investor funds and lulling long-term investors. The recordings also detailed how the conspirators planned to avoid responsibility if the fraud was discovered.

On September 24, 2008, agents from the Federal Bureau of Investigation; the Internal Revenue Service, Criminal Investigation Division; and the U.S. Postal Inspection Service executed search warrants at Petters's headquarters, Petters's home, and other locations. They recovered numerous documents and evidence. Within days, PCI filed for bankruptcy.

Petters's scam was an ordinary Ponzi scheme. Often potential investors were provided fabricated documents that listed goods purportedly purchased by PCI from various vendors and then sold to retailers. In some instances, investors also were provided false records indicating that PCI had wired its own funds to vendors, thus giving the appearance that PCI had money invested in the deals too. In addition, investors frequently received false PCI financial statements showing the company was owed billions of dollars from retailers. To induce investors further, Petters often signed promissory notes and provided his personal guarantee for the funds received. Those who invested, however, were not paid through profits from actual transactions. Rather, they were paid with money obtained from subsequent investors and, sometimes, even their own money.

As to this scheme, Shawn S. Tiller, Postal Inspector in Charge of the U.S. Postal Inspection Service, said, "The exploitation of the U.S. Mail in the furtherance of a Ponzi scheme, as committed by Mr. Petters and others, is a crime that is the job of the U.S. Postal Inspection Service to aggressively investigate to ensure the American public can have continued confidence in the integrity of the postal system."

PCI, which was formed in 1994, is solely owned by Petters. Coleman was hired by Petters as an office manager in 1993. PCI conducted some legitimate business initially but engaged in fraud from its first day. Petters began inflating and falsifying purchase orders in an effort to obtain more money from investors, which, in turn, he used to pay other investors as well as his increasingly lavish personal lifestyle. When Petters could not pay an investor on time, he would employ delay and evasion tactics, such as promising payment in the near future, making up excuses about slow payments from retailers, or providing checks that bounced. As the scheme progressed, Coleman was responsible for fabricating the PCI purchase orders and transferring funds between investors.

In 1999, Petters wanted to give investors false bank statements to "verify" PCI's purported bank transactions with retailers. Therefore, Petters turned to White, his friend, who agreed to prepare the false documents. Afterward, Petters hired White and gave him the title of chief financial officer of PCI. Among other things, White was responsible for fabricating the retailer purchase orders and PCI financial records.

In response to today's verdict, Ralph S. Boelter, Special agent in Charge of the Minneapolis field office of the Federal Bureau of Investigation, said, "Even post-trial, it is difficult to comprehend the scale of the financial loss perpetrated by Mr. Petters's massive fraud scheme. Still, it is my great hope the many victims in this matter will find at least a measure of solace in today's fitting and just verdict."

To further his scheme, Petters recruited purported vendors to assist him. In 2001, he asked business associates Larry Reynolds and Michael Catain to launder billions of dollars of investor funds through their business accounts and back to Petters and PCI. Reynolds operated Nationwide International Resources, Inc. ("NIR"), and previously he had conducted deals involving shoes and clothing with retailers, including Petters. In 2001, Petters asked Reynolds to allow him to wire millions of dollars through Reynolds's bank accounts and, in exchange, agreed to pay Reynolds a fraction of a percent of the funds as a "commission."

Petters made a similar agreement with Catain. As a result, in early 2002, Catain created a sham company, Enchanted Family Buying Co. ("EFBC"), and opened a business bank account. He then directed funds from Petters through that business account and back to Petters and PCI, less a commission. EFBC did no real business. In fact, its headquarters was above Catain's car wash, just a few miles from Petters's headquarters.

Between January 2003 and September 2008, approximately \$12 billion flowed through the NIR account into the PCI account. During that same time period, roughly the same amount flowed through the EFBC account into PCI. Although each company was purportedly a vendor, selling hundreds of millions of dollars in merchandise to PCI, bank records revealed no vendor income from those transactions. Instead, money flowed only from the two companies to PCI.

In April of 2001, PCI opened a new bank account that only Petters and Coleman were authorized to use. From January 2003 to September 2008, approximately \$35 billion was wired into that account from investors, NIR, and EFBC. Although PCI supposedly was selling merchandise to retailers, none of the deposits into the account came from retailers. Moreover, while most of the funds in the account went to pay some returns to investors, millions went to Petters, Coleman, and White. Additional money from the account was used for bonuses for other Petters's employees, most of whom did not even work for PCI. Tens of millions in account dollars went to Petters himself, while hundreds of millions went to fund Petters's companies, including Petters Warehouse Direct and RedTag. Petters also used PCI funds to employ family members, purchase real estate for family members, and fund businesses for them.

Petters continued to purchase and operate companies in an effort to maintain the facade of a successful businessman and create a false air of legitimacy that would lure new investors. The companies he bought were purchased with proceeds of the PCI fraud, and they included Fingerhut, Polaroid, and Sun Country Airlines, which, collectively, became known as Petters Group Worldwide, or PGW. Each year PCI wrote off millions of dollars in losses based on the losses it incurred from funding these other companies. However, the companies provided Petters the appearance he needed to keep the scam going.

"This case shows that the appearance of success can be a mask for a tangled financial web of lies," said Julio La Rosa, Acting Special Agent in Charge of the St. Paul field office for the Internal Revenue Service, Criminal Investigation Division. "Ponzi schemes can thrive for a time on false claims about how the money is being invested and where the returns are coming from. But that time is gone, and as this verdict shows, it's time for those responsible to face judgment."

By the end of 2007, the conspirators were struggling to find new investors, and PCI was slow in paying hundreds of millions of dollars in promissory notes held by Lancelot Investment Management, which was operated by Greg Bell. Petters told Bell the slow payments were due to his

retailers, who were late in paying him. As a result, Bell agreed to an extension on the payments so the notes would not go into default. In February 2008, Bell and Petters agreed Bell would receive replacement purchase orders from other retailers for the purported purchase orders held by Lancelot. Bell suggested they also exchange money so it would appear that PCI was paying its notes. Between late February 2008 and the date of the search warrants, Bell and Petters engaged in more than 80 “round trip” financial transactions intended to give the false impression that PCI was paying its obligations when due.

Petters continued to lull investors even after law enforcement executed search warrants on September 24, 2008. Furthermore, on October 1, 2008, Petters suggested to White and Reynolds that they flee prior to prosecution. Coleman, White, Reynolds, Catain, and Bell already have pleaded guilty for their roles in the scheme. Sentencing dates for them, however, have not been scheduled. James Wemhoff, Petters’s personal and business accountant, has pled guilty to criminal charges not related to the PCI Ponzi scheme.

Petters faces a potential maximum penalty of 20 years in prison for each wire fraud count on which he was convicted, 20 years for each mail fraud count on which he was convicted, 20 years for a single money laundering conspiracy count, 10 years for each of the money laundering counts on which he was convicted, and five years for a single count of conspiracy to commit mail fraud and wire fraud. Petters’s potential fine is \$250,000 for each count on which he was convicted or twice the gross loss or gain by the defendant because of the crime, whichever is greater. Judge Kyle will determine his sentence at a future date. Asset forfeiture action relative to this case is pending.

This case is the result of an investigation by the Federal Bureau of Investigation, the IRS-Criminal Investigation Division, and the U.S. Postal Inspection Service. It was prosecuted by Assistant U.S. Attorneys Joseph T. Dixon, John R. Marti, Timothy C. Rank, and John F. Docherty.